

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-07 NSAE-00 EPG-02 FAA-00
NSC-05 L-03 SS-15 SSO-00 NSCE-00 INRE-00 /054 W
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4507
INFO AMEMBASSY BONN IMMEDIATE
AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 08950

BONN FOR DOT SECRETARY ADAMS AND ASSISTANT SECRETARY
DAVENPORT
PARIS FOR UNDER SECRETARY COOPER
PASS CAB (WEST, RODRIGUEZ), WHITE HOUSE (JOHNSTON)
DOT (KAMM)
FROM AMBASSADOR BOYD

E.O. 11652: GDS
TAGS: EAIR, UK
SUBJECT: US-UK CIVAIR NEGOTIATIONS: STATUS REPORT
AS OF MAY 29

1. ASSESSMENT

(1) CONTROL OF AIRLINE CAPACITY, (2) NUMBER OF AIRLINES
EACH COUNTRY CAN FLY ON EACH ROUTE, AND (3) US AIRLINE
RIGHTS TO FLY BEYOND LONDON. MAJOR DIFFERENCES ALSO
REMAIN OVER PACIFIC ROUTES WHERE UK/HONG KONG ARE
ATTEMPTING TO RESTRICT US AIRLINES RIGHTS TO FLY BEYOND
HONG KONG IN ORDER TO TRANSFER REGIONAL CARRIAGE TO
CATHAY PACIFIC AND ITS POOL PARTNERS.

B. BOTH SIDES CONTINUE TO SIGNAL PREPARATIONS FOR
CESSATION OF AIR SERVICES ON JUNE 21 IF AGREEMENT IS NOT
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RESOLVED. IN MY VIEW, IT IS IMPORTANT THAT BY JUNE 3
WE MAKE SUFFICIENT PROGRESS SO AS TO BE ABLE TO ASSESS
WHETHER WE ARE LIKELY TO REACH AGREEMENT BY JUNE 21, OR
WHETHER WE NEED TO FOLLOW CONFRONTATION SCENARIO.

2. CAPACITY

A. IT IS REASONABLE FOR NEGOTIATIONS TO CONSIDER

QUESTION OF EXCESS CAPACITY, BUT WE HAVE MADE CLEAR THAT US IS NOT PREPARED TO ACCEPT MECHANISM EFFECTIVELY DETERMINING CAPACITY SHARE OR PLACING US AIRLINES AT COMPETITIVE DISADVANTAGE.

B. BOTH SIDES AGREE ON REVIEW OF SCHEDULES FILED BY AIRLINES AND CONSULTATIONS WHEN ONE GOVERNMENT CHALLENGES CAPACITY PROPOSED BY AIRLINE OF THE OTHER. ISSUE IS WHAT TO DO IN EVENT OF DISAGREED CONSULTATIONS.

C. UK HAS DROPPED EARLIER POSITION OF NO CAPACITY INCREASE IN EVENT OF DISAGREED CONSULTATIONS (WHICH WAS TANTAMOUNT TO UK UNILATERAL VETO OF POSSIBLE US AIRLINE CAPACITY INCREASES.)

D. PRESENT UK POSITION IS THAT CAPACITY SHOULD BE BASED UPON AGREED LOAD FACTOR STANDARD (E.G., 65 PERCENT); ALL AIRLINES TOGETHER IN A CITY-PAIR MARKET SHOULD MEET THIS STANDARD BEFORE ANY ADDS FLIGHTS; IN DETERMINING SEAT FACTOR FOR US AIRLINES TO BE MEASURED AGAINST OBJECTIVE STANDARD, ONLY US-UK TRAFFIC IS TO BE COUNTED, NOT TOTAL ON-BOARD TRAFFIC CARRIED TO UK (E.G., PASSENGERS CARRIED FROM BOSTON DESTINED FOR FRANKFURT ON A FLIGHT THAT STOPS AT LONDON ARE TO BE EXCLUDED IN DETERMINING SEAT FACTOR. SINCE THIS APPLIES ONLY TO US AIRLINES, THEY WOULD BE AT COMPETITIVE DISADVANTAGE IN OFFERING CAPACITY).

E. EFFECT OF UK POSITION IS (I) TO FORCE AIRLINES TO REDUCE FREQUENCY TO ASSURE HIGH SEAT FACTORS (OFTEN WILL INVOLVE LESS-THAN-DAILY SERVICE FOR EACH CARRIER), (II) FORCE TRAFFIC ONTO AIRLINE WITH LOWER SEAT FACTORS, BY NOT ALLOWING AIRLINE WITH HIGH SEAT FACTORS TO
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INCREASE CAPACITY UNTIL OTHER AIRLINE'S SEAT FACTOR HAD CAUGHT UP, AND (III) NOT ALLOW US AIRLINES TO COMBINE TRAFFIC FLOWS TO LONDON AND OTHER EUROPEAN POINTS FROM US CITIES WITHOUT ACCEPTING COMPETITIVE DISADVANTAGE.

F. WE HAVE ADVANCED NUMEROUS PROPOSALS FOR DEALING WITH PROBLEM OF DISAGREED CONSULTATIONS AND HAVE GONE FAR TO MEET UK CONCERNS OVER "EXCESS" CAPACITY. LITTLE PROSPECT OF AGREEMENT AS LONG AS UK INSISTS ON MECHANISMS WHICH EFFECTIVELY WOULD FORCE 50-50 CAPACITY SPLIT.

3. DESIGNATION

A. CURRENT BERMUDA LANGUAGE GRANTS EACH PARTY RIGHT TO DESIGNATE ONE, TWO, OR MORE AIRLINES ON EACH ROUTE.

B. US POSITION IS THAT DESIGNATION ARTICLE SHOULD BE STRUCTURED SO AS TO PROVIDE FOR MULTIPLE DESIGNATION (TRADITIONAL LANGUAGE IS "THE GOVERNMENT OF ... HAS THE RIGHT TO DESIGNATE AN AIRLINE OR AIRLINES TO SERVE ..."), SUBJECT TO RESTRICTION IN APPROPRIATE INSTANCES.

C. UK APPROACH IS PHILOSOPHICALLY OPPOSITE: EACH SIDE

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WOULD HAVE RIGHT TO DESIGNATE SINGLE AIRLINE; ADDITIONAL
DESIGNATIONS WOULD BE ON EXCEPTIONAL BASIS.
D. US IS ASKING FOR (I) TRADITIONAL DESIGNATION
LANGUAGE FOR ALL ROUTES, SERVICES, EXCEPT NORTH ATLANTIC
PASSENGER SERVICES, AND (II) RIGHT TO DESIGNATE TWO
PASSENGER AIRLINES ON EACH OF TWO NORTH ATLANTIC ROUTES
TO LONDON (E.G., LA-LONDON, NY-LONDON). COMPARISON
WITH PARA 3A ABOVE SHOWS WHAT A MAJOR CONCESSION THIS IS.
CURRENTLY, BOTH PANAM, TWA SERVE NY, BOSTON, SF TO
LONDON; NEXT APRIL PANAM PLANS TO JOIN TWA IN LA-LONDON
SERVICE.
E. UK OFFERS DUAL DESIGNATION ONLY AT NY, AND SAYS
2ND US AIRLINE MUST OPERATE TO GATWICK, NOT HEATHROW.
(LAKER WOULD BE 2ND UK CARRIER AND OPERATE TO STANSTED.)
USDEL AGREES STRONGLY WITH UNIFORM US AIRLINE OPPOSITION
TO RESTRICTING VIABILITY OF US OPERATIONS BY DESIGNATING
AIRPORTS; GATWICK HAS FEW FLIGHT CONNECTIONS TO EUROPE.

4. NORTH ATLANTIC ROUTES
MAJOR UNRESOLVED ISSUES ARE THE SEATTLE/MANCHESTER
TRADE OF EXCLUSIVE ROUTES, PHASING OUT OF CERTAIN
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RIGHTS BEYOND UK, QUESTION OF ROUND-THE-WORLD (RTW) SERVICE, OTHER BEYOND RIGHTS TO BE RETAINED, BEYOND COMBINATION RIGHTS, CHANGE OF GAUGE, AND BEHIND GATEWAY SERVICES.

A. UK WANTS ROUTES IDENTICAL TO US ROUTES, EVEN THOUGH THIS WOULD NOT PROVIDE BALANCE OF ECONOMIC OPPORTUNITY. WOULD BE EXTREMELY BAD PRECEDENT FOR OTHER CIVIL AGREEMENTS. WOULD MEAN EITHER NO UK SERVICE FROM A US CITY UNTIL CITY COULD SUPPORT OPERATIONS OF TWO AIRLINES, OR GOVERNMENTAL AGREEMENT TO SPLIT FREQUENCIES (SAY 2 OR 3 PER AIRLINE PER WEEK), IN ORDER TO AVOID EXCESS CAPACITY. WE WANT TO CONTINUE PRESENT EXCLUSIVE US RIGHTS SEATTLE-UK IN EXCHANGE FOR EXCLUSIVE UK RIGHTS US-MANCHESTER.

B. UK HAS CONCEDED AN RTW ROUTE THRU LONDON, HK, BUT ONE SO BOUND WITH RESTRICTIONS THAT IT HAS ALMOST NO VALUE.

C. US HAS CONCEDED TERMINATION OF 5TH FREEDOM RIGHTS TO MANY POINTS; UK CONTINUES TO PRESS FOR ELIMINATION OF ALL US RIGHTS TO PICK UP TRAFFIC IN LONDON TO GO BEYOND LONDON ON ALL EXCEPT BERLIN SERVICE AND A NOT-MORE-THAN-DAILY RTW SERVICE.

D. AS DISCUSSED IN PARA 2E(III), EFFECT OF UK CAPACITY PROPOSALS IS TO RESTRICT SEVERELY ABILITY OF US CARRIERS TO OPERATE FROM US VIA LONDON TO THE CONTINENT, EVEN WITHOUT LONDON-CONTINENT TRAFFIC RIGHTS.

E. US HAS ARGUED THAT US AIRLINES (WITH CAB APPROVAL) SHOULD BE FREE TO CHOOSE DOMESTIC (BEHIND-GATEWAY) SEGMENTS FOR INTERNATIONAL FLIGHTS. UK SAYS DOMESTIC, INTERNATIONAL ROUTES MUST BE SEPARATE - NO THRU-PLANE SERVICES. THIS IGNORES PUBLIC SERVICE, CONVENIENCE. EFFECT IS TO HINDER ABILITY OF US AIRLINES TO TAP US DOMESTIC MARKET FLOWS TO UK, EUROPE.

5. OTHER ISSUES.

A. CARIBBEAN ROUTES: NOT DISCUSSED THIS ROUND, IN VIEW OF NEED TO PRESS FOR SETTLEMENT OF MORE IMPORTANT CONFIDENTIAL

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ISSUES.

B. ALL-CARGO ROUTES: LIMITED DISCUSSION, BUT UK INDICATES INTENT TO BE RESTRICTIVE HERE.

C. HONG KONG ROUTES: NO AGREEMENT. UK WANTS US AIRLINES TO LIMIT HK OPERATIONS, SO THAT CATHAY PACIFIC HAS GREATER OPPORTUNITY FOR TRAFFIC IN ASIAN MARKETS. UK OBJECTIVE IS TO STRENGTHEN CATHAY PACIFIC AS A REGIONAL AIRLINE AND THEN SEE IT EXTEND ACROSS PACIFIC TO US. UK HAS INDICATED 2 US CARRIERS MAY OPERATE ON

A ROUTE NOT SERVED BY CATHAY PACIFIC, BUT ONE MUST GET OFF WHEN CATHAY PACIFIC WISHES TO SERVE ROUTE.

D. CHARTER LINK: NO CLEAR VIEW YET OF UK POSITION ON LINKAGE BETWEEN CHARTER AND SCHEDULED SERVICES AGREEMENT. WE SEE LINKAGE AS IMPORTANT MEANS TO GET MORE LIBERAL CHARTER AGREEMENT, OFFSET SOME RESTRICTIVE ASPECTS OF SCHEDULED SERVICES AGREEMENT.

E. TARIFF: SUFFICIENT PROGRESS HAS BEEN MADE THAT TARIFF PROVISIONS ARE NOT LIKELY TO BE OBSTACLE TO REACHING AGREEMENT. SOME FURTHER DISCUSSION ON SMALL POINTS, IMPLICATIONS REQUIRED.

6. FOR COOPER: LONDON 8944 PROVIDED SUGGESTED TALKING POINTS FOR SECSTATE SHOULD OWEN RAISE CIVAIR SUBJECT IN THEIR MEETING MAY 31.

BREWSTER

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